

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Brooklyn-Guernsey-Malcom Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2007 Election)</b>		
Bev Rens	President	2009
Bob Parker	Vice President	2008
Curt DePauw	Board Member	2009
Travis Solem	Board Member	2008
Gaynelle Connor	Board Member	2008
Kyle Montgomery	Board Member (Appointed)	2007
Arlene Ford	Board Member	2007
<b>Board of Education</b>		
<b>(After September 2007 Election)</b>		
Bev Rens	President	2009
Bob Parker	Vice President	2008
Travis Solem	Board Member	2008
Gaynelle Connor	Board Member	2008
Curt DePauw	Board Member (Resigned)	2009
Laverne Kriegel	Board Member (Appointed)	2009
Kyle Montgomery	Board Member	2010
Arlene Ford	Board Member	2010
<b>School Officials</b>		
Brad Hohensee	Superintendent	2008
Sharon Schott	District Secretary/ Business Manager	2008
Brian Gruhn	Attorney	2008

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Brooklyn-Guernsey-Malcom Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District, Brooklyn, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2009 on our consideration of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brooklyn-Guernsey-Malcom Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2009

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Brooklyn-Guernsey-Malcom Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,036,538 in fiscal 2007 to \$5,320,285 in fiscal 2008, while General Fund expenditures increased from \$4,695,845 in fiscal 2007 to \$4,763,218 in fiscal 2008. This resulted in an increase in the District's fund balance from \$1,733,148 in fiscal 2007 to \$2,210,474 in fiscal 2008, representing a 27.5% increase.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) increased from 34.0% for fiscal year 2007 to 41.1% for fiscal year 2008. The School Budget Review Committee recommends of a solvency ratio between 5% and 10%.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Brooklyn-Guernsey-Malcom Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Brooklyn-Guernsey-Malcom Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Brooklyn-Guernsey-Malcom Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

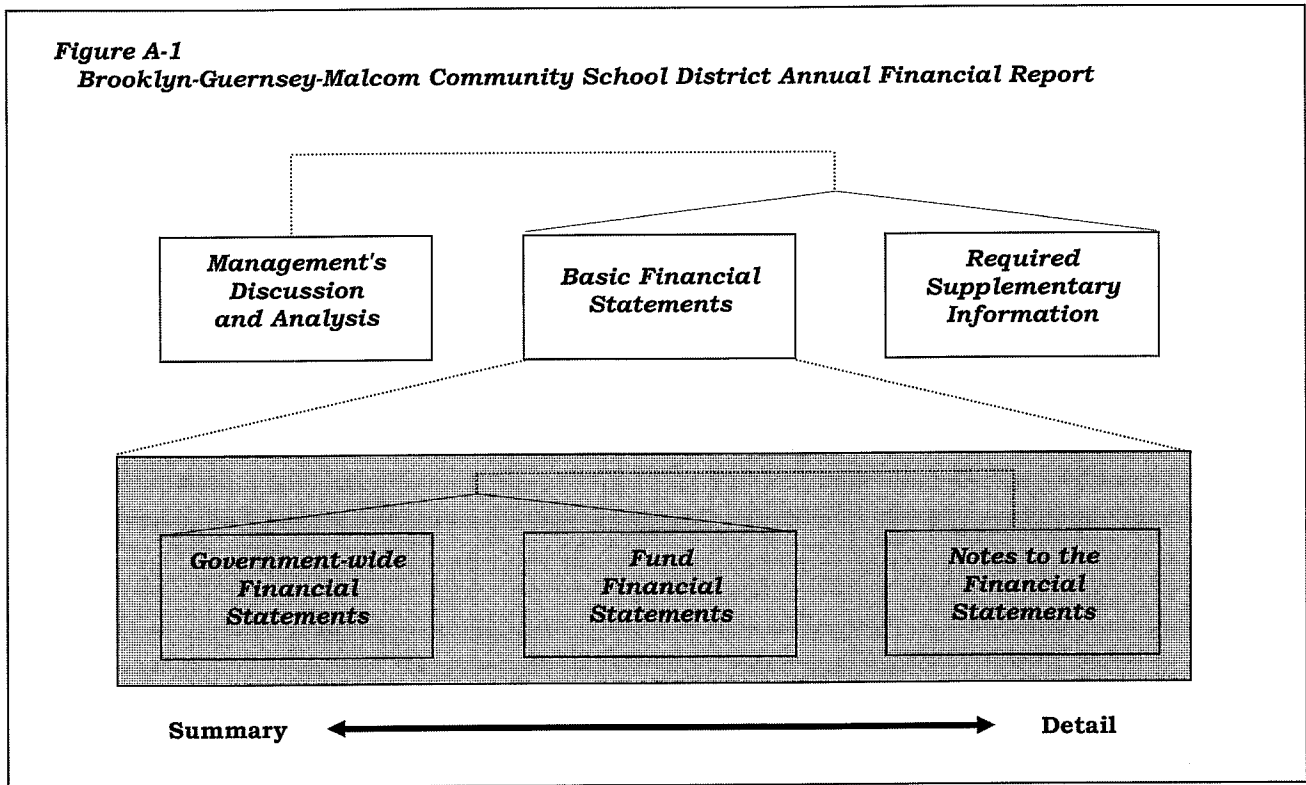


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition, daycare and wellness building programs are included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the Daycare Fund and the Wellness Building Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 10,702,592	9,316,095	\$ 65,608	48,762	\$ 10,768,200	9,364,857	14.99%
Capital assets	5,667,826	5,743,696	79,283	90,070	5,747,109	5,833,766	-1.49%
Total assets	16,370,418	15,059,791	144,891	138,832	16,515,309	15,198,623	8.66%
Long-term obligations	8,284,956	8,681,088	0	0	8,284,956	8,681,088	-4.56%
Other liabilities	2,977,231	2,715,246	5,392	5,408	2,982,623	2,720,654	9.63%
Total liabilities	11,262,187	11,396,334	5,392	5,408	11,267,579	11,401,742	-1.18%
Net assets:							
Invested in capital assets, net of related debt	1,684,134	1,510,941	79,283	90,070	1,763,417	1,601,011	10.14%
Restricted	1,669,482	962,053	0	0	1,669,482	962,053	73.53%
Unrestricted	1,754,615	1,190,463	60,216	43,354	1,814,831	1,233,817	47.09%
Total net assets	\$ 5,108,231	3,663,457	\$ 139,499	133,424	\$ 5,247,730	3,796,881	38.21%

The District's combined net assets increased by 38.21% compared to the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately 73.53% or \$707,429 from the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately 47.09% or \$581,014 compared to the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 508,044	479,288	\$ 189,266	194,606	697,310	673,894	3.47%
Operating grants and contributions and restricted interest	748,077	664,896	111,129	121,142	859,206	786,038	9.31%
Capital grants and contributions and restricted interest	25,000	0	0	0	25,000	0	100.00%
General revenues:							
Property tax	2,506,233	2,404,467	0	0	2,506,233	2,404,467	4.23%
Income surtax	113,553	106,779	0	0	113,553	106,779	6.34%
Local option sales and service tax	467,887	462,694	0	0	467,887	462,694	1.12%
Unrestricted state grants	2,445,969	2,338,912	0	0	2,445,969	2,338,912	4.58%
Other	303,920	238,073	1,730	785	305,650	238,858	27.96%
Total revenues	7,118,683	6,695,109	302,125	316,533	7,420,808	7,011,642	5.84%
Program expenses:							
Governmental activities:							
Instructional	3,276,160	3,317,681	14,746	15,897	3,290,906	3,333,578	-1.28%
Support services	1,497,497	1,569,170	2,554	10,647	1,500,051	1,579,817	-5.05%
Non-instructional programs	0	0	278,750	271,335	278,750	271,335	2.73%
Other expenses	900,252	693,567	0	0	900,252	693,567	29.80%
Total expenses	5,673,909	5,580,418	296,050	297,879	5,969,959	5,878,297	1.56%
Change in net assets	1,444,774	1,114,691	6,075	18,654	1,450,849	1,133,345	28.01%
Net assets beginning of year	3,663,457	2,548,766	133,424	114,770	3,796,881	2,663,536	42.55%
Net assets end of year	\$ 5,108,231	3,663,457	\$ 139,499	133,424	5,247,730	3,796,881	38.21%

In fiscal 2008, local tax (property tax, income surtax and local option sales and services tax) and unrestricted state grants account for 77.73% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.43% of the revenue from business type activities.

The District's total revenues were approximately \$7.42 million of which \$7.12 million was for governmental activities and \$0.30 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.84% increase in revenues and a 1.56% increase in expenses. Unrestricted state grants increased \$107,057 and property tax increased \$101,766 to fund the increase in expenditures. The increase in expenses related to increases in the negotiated salary and benefits.

### Governmental Activities

Revenues for governmental activities were \$7,118,683 and expenses were \$5,673,909.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses. The net cost of services is the result after subtracting grants and charges for services that the District used to offset the program's total cost.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 3,276,160	3,317,681	-1.25%	2,228,251	2,372,478	-6.08%
Support services	1,497,497	1,569,170	-4.57%	1,497,030	1,568,446	-4.55%
Other expenses	900,252	693,567	29.80%	667,507	495,310	34.77%
Totals	<u>\$ 5,673,909</u>	<u>5,580,418</u>	<u>1.68%</u>	<u>4,392,788</u>	<u>4,436,234</u>	<u>-0.98%</u>

- A portion of the cost financed by users of the District's programs was \$508,044.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$773,077.
- The net cost portion of governmental activities was financed with \$2,619,786 in local tax, \$467,887 in local option sales and service tax, \$2,445,969 in unrestricted state grants and unrestricted investment earnings of \$237,164.

### Business-Type Activities

The District's business-type activities are the School Nutrition Fund, the Preschool Fund and the Wellness Building Fund. Revenues of the District's business-type activities totaled \$302,125 in 2008, which is a decrease of 4.55% over the prior year. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses decreased 0.60% to \$296,050 for business-type activities in 2008.

### INDIVIDUAL FUND ANALYSIS

As previously noted, the Brooklyn-Guernsey-Malcom Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the District completed the year, its governmental funds reported combined fund balances of \$7,480,998, an increase of \$1,131,515 above last years ending fund balances of \$6,349,483.

### Governmental Fund Highlights

- The District's increase in General Fund financial position is the result of many factors. Growth during the year in local and state sources resulted in an increase in revenues. The increase in General Fund revenues was more than enough to offset the increase in General Fund expenditures during fiscal 2008.
- During fiscal year 2008, the District reduced insurance costs. The District's Management Fund paid out \$50,854 in 2008 as compared to \$58,482 for 2007 for workers' compensation, liability, auto/bus, and building/property insurance. The Management fund balance increased \$96,265 during the year, primarily because an increase in the tax levy as compared to fiscal year 2008.

### Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from \$145,695 at June 30, 2007 to \$139,430 at June 30, 2008, representing a decrease of 4.30%.

- The Preschoool Fund continues to have a deficit fund balance of \$3,603, which increased in 2008 from a deficit of \$8,207 in 2007. Continued efforts will be made during fiscal 2009 to bring this fund to a positive fund balance.
- The Wellness Building Fund ended fiscal 2008 with a fund balance of \$3,672 as compared to a deficit fund balance of \$4,064 for fiscal 2007. This fund was able to attain a positive fund balance because the District put an automated system in place which eliminated the need for a paid attendant.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$380,645 more than budgeted revenues. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2008, the District had invested \$5,747,109, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$283,730.

The original cost of the District's capital assets was \$8,610,936. Governmental funds account for \$8,476,792, with the remainder of \$134,144 accounted for in the Proprietary School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$68,557 at June 30, 2007, compared to \$0 reported at June 30, 2008. The decrease in construction in progress is due to the completion of the boiler project at the school.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 148,988	65,520	\$ 0	0	\$ 148,988	65,520	127.39%
Construction in progress	0	68,557	0	0	0	68,557	-100.00%
Buildings	5,148,180	5,135,896	0	0	5,148,180	5,135,896	0.24%
Improvements other than buildings	4,698	6,402	0	0	4,698	6,402	-26.62%
Machinery and equipment	365,960	467,321	79,283	90,070	445,243	557,391	-20.12%
Total	\$ 5,667,826	5,743,696	\$ 79,283	90,070	\$ 5,747,109	5,833,766	-1.49%

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## Long-Term Debt

At year-end, the District had \$8,284,956 in bonds and other long-term debt outstanding. This represents a decrease of 4.6% from last year's balance of \$8,681,088. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation	\$ 7,580,000	7,840,000	-3.3%
Early retirement	28,750	65,298	-56.0%
Compensated absences	676,206	775,790	-12.8%
Totals	\$ 8,284,956	8,681,088	-4.6%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment for a few years and expects the trend to continue for the next 6-10 years.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projection. The District has been forced to shift funding to property taxes.
- On July 1, 2007 IPERS implemented an employers' contribution increase over a 4-year period. The employers' portion of IPERS increased from 5.75% to 6.05% on July 1, 2007, and will increase to 6.35% on July 1, 2008, to 6.65% on July 1, 2009 and finally to 6.95% on July 1, 2010. This will increase the BGM Community Schools employer benefit costs over the next four years.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Schott, Business Manager/Board Secretary, Brooklyn-Guernsey-Malcom Community School District, 1090 Jackson Street, Brooklyn, Iowa, 52211.

## BASIC FINANCIAL STATEMENTS

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
U.S. Treasury Securities on deposit with escrow agent	\$ 3,596,308	0	3,596,308
Cash and cash equivalents	4,016,559	55,591	4,072,150
Receivables:			
Property tax:			
Delinquent	24,139	0	24,139
Succeeding year	2,493,142	0	2,493,142
Income surtax	298,612	0	298,612
Accounts	0	629	629
Due from other governments	273,832	0	273,832
Inventories	0	9,388	9,388
Capital assets, net of accumulated depreciation (Note 5)	5,667,826	79,283	5,747,109
<b>Total Assets</b>	<b>16,370,418</b>	<b>144,891</b>	<b>16,515,309</b>
<b>Liabilities</b>			
Accounts payable	39,989	0	39,989
Salaries and benefits payable	389,851	1,921	391,772
Accrued interest payable	54,249	0	54,249
Deferred revenue:			
Succeeding year property tax	2,493,142	0	2,493,142
Unearned revenue	0	3,471	3,471
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	270,000	0	270,000
Early retirement	9,000	0	9,000
Compensated absences	676,206	0	676,206
Portion due after one year:			
General obligation bonds	7,310,000	0	7,310,000
Early retirement	19,750	0	19,750
<b>Total Liabilities</b>	<b>11,262,187</b>	<b>5,392</b>	<b>11,267,579</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,684,134	79,283	1,763,417
Restricted for:			
Beginning teacher mentoring	1,624	0	1,624
Additional teacher contract day	749	0	749
Professional development	7,039	0	7,039
Salary improvement	97	0	97
Community grants	10,274	0	10,274
Career pathways	4,233	0	4,233
Management levy	185,987	0	185,987
Physical plant and equipment levy	685,728	0	685,728
Capital projects	501,977	0	501,977
Debt service levy	223,453	0	223,453
Other special revenue purposes	48,321	0	48,321
Unrestricted	1,754,615	60,216	1,814,831
<b>Total Net Assets</b>	<b>\$ 5,108,231</b>	<b>139,499</b>	<b>5,247,730</b>

SEE NOTES TO FINANCIAL STATEMENTS.



BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Contributions and Restricted Interest	Contributions and Restricted Interest		Govern- mental Activities	Business- Type Activities
Expenses						Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,104,637	241,403	502,729	0	(1,360,505)	0
Special instruction	560,735	99,877	33,690	0	(427,168)	0
Other instruction	610,788	166,297	3,913	0	(440,578)	0
	3,276,160	507,577	540,332	0	(2,228,251)	0
Support services:						
Student services	66,931	0	0	0	(66,931)	0
Instructional staff services	146,706	0	0	0	(146,706)	0
Administration services	503,194	0	0	0	(503,194)	0
Operation and maintenance of plant services	535,698	0	0	0	(535,698)	0
Transportation services	244,968	467	0	0	(244,501)	0
	1,497,497	467	0	0	(1,497,030)	0
Other expenditures:						
Facilities acquisitions	178,959	0	0	25,000	(153,959)	0
Long-term debt interest	367,209	0	0	0	(367,209)	0
AEA flowthrough	207,745	0	207,745	0	0	0
Depreciation(unallocated)*	146,339	0	0	0	(146,339)	0
	900,252	0	207,745	25,000	(667,507)	0
Total governmental activities	5,673,909	508,044	748,077	25,000	(4,392,788)	0
Business-Type activities:						
Preschool						
Instruction:						
Regular	14,746	13,650	5,700	0	0	4,604
Wellness Building						
Support services:						
Student services	994	0	0	0	0	(994)
Administration services	1,560	10,290	0	0	0	8,730
Total Wellness Building activities	2,554	10,290	0	0	0	7,736
Non-instructional programs:						
Nutrition services	278,750	165,326	105,429	0	0	(7,995)
Total business-type activities	296,050	189,266	111,129	0	0	4,345
Total	\$ 5,969,959	697,310	859,206	25,000	(4,392,788)	4,345
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$	1,746,143	0
Debt service					479,352	0
Capital outlay					280,738	0
Income surtax					113,553	0
Local option sales and services tax					467,887	0
Unrestricted state grants					2,445,969	0
Gain on sale of equipment					15,163	0
Unrestricted investment earnings					237,164	1,730
Other					51,593	0
Total general revenues					5,837,562	1,730
Changes in net assets					1,444,774	6,075
Net assets beginning of year					3,663,457	133,424
Net assets end of year					\$ 5,108,231	139,499

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
U.S. Treasury Securities on deposit with escrow agent	\$ 0	3,596,308	0	3,596,308
Cash and pooled investments	2,413,936	227,041	1,375,582	4,016,559
Receivables:				
Property tax:				
Delinquent	16,720	4,868	2,551	24,139
Succeeding year	1,787,652	475,498	229,992	2,493,142
Income surtax	106,647	0	191,965	298,612
Interfund	8,456	0	0	8,456
Due from other governments	201,202	0	72,630	273,832
<b>Total Assets</b>	<b>\$ 4,534,613</b>	<b>4,303,715</b>	<b>1,872,720</b>	<b>10,711,048</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Interfund payable	\$ 0	8,456	0	8,456
Accounts payable	39,989	0	0	39,989
Salaries and benefits payable	389,851	0	0	389,851
Deferred revenue:				
Succeeding year property tax	1,787,652	475,498	229,992	2,493,142
Income surtax	106,647	0	191,965	298,612
<b>Total liabilities</b>	<b>2,324,139</b>	<b>483,954</b>	<b>421,957</b>	<b>3,230,050</b>
<b>Fund balances:</b>				
Reserved for:				
Debt service	0	3,819,761	0	3,819,761
Beginning teacher mentoring	1,624	0	0	1,624
Additional teacher contract day	749	0	0	749
Professional development	7,039	0	0	7,039
Salary improvement	97	0	0	97
Community grants	10,274	0	0	10,274
Career pathways	4,233	0	0	4,233
Unreserved fund balances	2,186,458	0	1,450,763	3,637,221
<b>Total fund balances</b>	<b>2,210,474</b>	<b>3,819,761</b>	<b>1,450,763</b>	<b>7,480,998</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,534,613</b>	<b>4,303,715</b>	<b>1,872,720</b>	<b>10,711,048</b>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

**Total fund balances of governmental funds(pages 15)** \$ 7,480,998

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported as  
assets in the governmental funds. 5,667,826

Accrued interest payable on long-term liabilities is not due  
and payable in the current period and, therefore, is not  
reported as a liability in the governmental funds. (54,249)

Accounts receivable income surtax, are not yet available  
to finance expenditures of the current fiscal period. 298,612

Long-term liabilities, including bonds payable, early  
retirement and compensated absences, are not due and  
payable in the current period and, therefore are not  
reported in the funds. (8,284,956)

**Net assets of governmental activities(page 13)** \$ 5,108,231

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,667,672	479,352	919,320	3,066,344
Tuition	320,477	0	0	320,477
Other	128,209	127,159	251,238	506,606
State sources	3,036,124	0	0	3,036,124
Federal sources	152,640	0	0	152,640
Total revenues	5,305,122	606,511	1,170,558	7,082,191
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	2,118,535	0	38,444	2,156,979
Special instruction	560,735	0	0	560,735
Other instruction	434,847	0	175,941	610,788
	3,114,117	0	214,385	3,328,502
Support services:				
Student services	93,514	0	0	93,514
Instructional staff services	146,706	0	0	146,706
Administration services	493,757	0	0	493,757
Operation and maintenance of plant services	509,127	0	50,854	559,981
Transportation services	198,252	0	0	198,252
	1,441,356	0	50,854	1,492,210
Other expenditures:				
Facilities acquisitions	0	0	338,505	338,505
Long-term debt:				
Principal	0	260,000	0	260,000
Interest	0	338,877	0	338,877
AEA flowthrough	207,745	0	0	207,745
	207,745	598,877	338,505	1,145,127
Total expenditures	4,763,218	598,877	603,744	5,965,839
Excess of revenues over expenditures	541,904	7,634	566,814	1,116,352
Other financing sources(uses):				
Transfers in	0	0	79,741	79,741
Transfers out	(79,741)	0	0	(79,741)
Sales of equipment and materials	15,163	0	0	15,163
Total other financing sources(uses)	(64,578)	0	79,741	15,163
Net change in fund balances	477,326	7,634	646,555	1,131,515
Fund balances beginning of year	1,733,148	3,812,127	804,208	6,349,483
Fund balances end of year	\$ 2,210,474	3,819,761	1,450,763	7,480,998

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2008

Net change in fund balances - total governmental funds(pages 17) \$ 1,131,515

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 197,073	
Depreciation expense	<u>(272,943)</u>	(75,870)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid	260,000
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(28,332)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

21,329

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	\$ 36,548	
Compensated absences	<u>99,584</u>	<u>136,132</u>

Changes in net assets of governmental activities(page 14) \$ 1,444,774

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2008

	School Nutrition	Pre- school	Wellness Building	Total
<b>Assets</b>				
Cash and pooled investments	\$ 53,601	(1,682)	3,672	55,591
Accounts receivable	629	0	0	629
Inventories	9,388	0	0	9,388
Capital assets, net of accumulated depreciation	79,283	0	0	79,283
Total Assets	142,901	(1,682)	3,672	144,891
<b>Liabilities</b>				
Salaries and benefits payable	0	1,921	0	1,921
Unearned revenues	3,471	0	0	3,471
Total Liabilities	3,471	1,921	0	5,392
<b>Net Assets</b>				
Invested in capital assets	79,283	0	0	79,283
Unrestricted	60,147	(3,603)	3,672	60,216
Total Net Assets	\$ 139,430	(3,603)	3,672	139,499

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	School Nutrition	Pre- school	Wellness Building	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 160,298	11,050	0	171,348
Donations	0	5,700	0	5,700
Miscellaneous	5,028	2,600	10,290	17,918
TOTAL OPERATING REVENUES	165,326	19,350	10,290	194,966
OPERATING EXPENSES:				
Instruction:				
Regular:				
Salaries	0	11,747	0	11,747
Benefits	0	2,999	0	2,999
Total instruction	0	14,746	0	14,746
Support services:				
Student services:				
Services	0	0	75	75
Supplies	0	0	919	919
Administration services:				
Salaries	0	0	1,424	1,424
Benefits	0	0	136	136
Total support services	0	0	2,554	2,554
Non-instructional programs:				
Salaries	97,759	0	0	97,759
Benefits	17,716	0	0	17,716
Services	3,533	0	0	3,533
Supplies	148,860	0	0	148,860
Other	95	0	0	95
Depreciation	10,787	0	0	10,787
Total non-instructional	278,750	0	0	278,750
TOTAL OPERATING EXPENSES	278,750	14,746	2,554	296,050
OPERATING INCOME (LOSS)	(113,424)	4,604	7,736	(101,084)
NON-OPERATING REVENUES:				
State sources	3,382	0	0	3,382
Federal sources	102,047	0	0	102,047
Interest income	1,730	0	0	1,730
TOTAL NON-OPERATING REVENUES	107,159	0	0	107,159
Changes in net assets	(6,265)	4,604	7,736	6,075
Net assets beginning of year	145,695	(8,207)	(4,064)	133,424
Net assets end of year	\$ 139,430	(3,603)	3,672	139,499

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	School Nutrition	Pre- school	Wellness Building	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 159,899	0	0	159,899
Cash received from miscellaneous operating activities	5,028	20,800	10,290	36,118
Cash payments to employees for services	(115,475)	(14,992)	(1,560)	(132,027)
Cash payments to suppliers for goods or services	(133,460)	0	(994)	(134,454)
Net cash provided by(used in) operating activities	(84,008)	5,808	7,736	(70,464)
Cash flows from non-capital financing activities:				
State grants received	3,382	0	0	3,382
Federal grants received	82,470	0	0	82,470
Net cash provided by non-capital financing activities	85,852	0	0	85,852
Cash flows from investing activities:				
Interest on investments	1,730	0	0	1,730
Net increase in cash and cash equivalents	3,574	5,808	7,736	17,118
Cash and cash equivalents at beginning of year	50,027	(7,490)	(4,064)	38,473
Cash and cash equivalents at end of year	\$ 53,601	(1,682)	3,672	55,591
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (113,424)	4,604	7,736	(101,084)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	19,577	0	0	19,577
Depreciation	10,787	0	0	10,787
Increase in inventories	(549)	0	0	(549)
Decrease(Increase) in accounts receivable	(629)	1,450	0	821
Decrease in salaries and benefits payable	0	(246)	0	(246)
Increase in unearned revenue	230	0	0	230
Net cash provided by(used in) operating activities	\$ (84,008)	5,808	7,736	(70,464)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 53,601	(1,682)	3,672	55,591

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$19,577.

SEE NOTES TO FINANCIAL STATEMENTS.



BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**(1) Summary of Significant Accounting Policies**

The Brooklyn-Guernsey-Malcom Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Brooklyn, Iowa, and portions of Guernsey and Malcom, and the predominate agricultural territory in Poweshiek County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Brooklyn-Guernsey-Malcom Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Brooklyn-Guernsey-Malcom Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Poweshiek County Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. The value of the United States Treasury Securities on deposit with the escrow agent as part of the crossover refunding bond issue has been added to the invested in capital assets, net of related debt.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District's proprietary funds are the School Nutrition Fund, Preschool Fund and Wellness Building Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for the child care and preschool services provided by the District. The Wellness Building Fund is used to account for health services provided to employees by the District.

### C. Measurement Focus and Basis of Accounting

The government-wide, and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the GAAP basis. The financial statements of the District are prepared by making memorandum adjusting entries to the GAAP basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2008 balances of interfund accounts receivable or payable have been recorded.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 3,450,381</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2008, the District had investments in U.S. Treasury Securities as follows:

	<u>Fair Value</u>
U.S. Treasury Securities	<u>\$ 3,596,308</u>

### (3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	General	<u>\$ 79,741</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### (4) Interfund Receivables/Payables

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	<u>\$ 8,456</u>

### (5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Machinery and equipment	\$ 134,144	0	0	134,144
Less accumulated depreciation	44,074	10,787	0	54,861
Business-type activities capital assets, net	<u>\$ 90,070</u>	<u>(10,787)</u>	<u>0</u>	<u>79,283</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,520	83,468	0	148,988
Construction in progress	68,557	0	68,557	0
Total capital assets not being depreciated	134,077	83,468	68,557	148,988
Capital assets being depreciated:				
Buildings	6,839,475	156,919	0	6,996,394
Improvements other than buildings	34,092	0	0	34,092
Machinery and equipment	1,275,873	25,243	3,798	1,297,318
Total capital assets being depreciated	8,149,440	182,162	3,798	8,327,804
Less accumulated depreciation for:				
Buildings	1,703,579	144,635	0	1,848,214
Improvements other than buildings	27,690	1,704	0	29,394
Machinery and equipment	808,552	126,604	3,798	931,358
Total accumulated depreciation	2,539,821	272,943	3,798	2,808,966
Total capital assets being depreciated, net	5,609,619	(90,781)	0	5,518,838
Governmental activities capital assets, net	\$ 5,743,696	(7,313)	68,557	5,667,826

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 25,071
Support services:	
Operation and maintenance of plant services	31,958
Transportation	69,575
	126,604
Unallocated depreciation	146,339
Total governmental activities depreciation expense	\$ 272,943
Business-type activities:	
Food services	\$ 10,787

#### (6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 7,840,000	0	260,000	7,580,000	270,000
Early retirement	65,298	0	36,548	28,750	9,000
Compensated absences	775,790	676,206	775,790	676,206	676,206
Total	\$ 8,681,088	676,206	1,072,338	8,284,956	955,206



### General Obligation

On March 1, 2004, the District issued \$3,725,000 of general obligation refunding bonds, with interest rates ranging from 3.00% to 4.00%, for a crossover refunding of a portion of the general obligation bonds issued September 1, 1999. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$3,585,000 principal of the refunded general obligation bonds when they become callable on May 1, 2009 and the interest from May 1, 2004 to and including May 1, 2009 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

Details of the District's June 30, 2008 General Obligation bond indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond issue September 1, 1999		
		Principal	Interest	Total
2009	4.75 % \$	270,000	195,302	465,302
2010	4.80	285,000	182,478	467,478
2011	4.90	300,000	168,798	468,798
2012	4.95	315,000	154,098	469,098
2013	5.00	330,000	138,506	468,506
2014	5.10	345,000	122,006	467,006
2015	5.10	365,000	104,410	469,410
2016	5.15	380,000	85,796	465,796
2017	5.20	400,000	66,226	466,226
2018	5.20	420,000	45,426	465,426
2019	5.30	445,000	23,586	468,586
Subtotal		\$ 3,855,000	1,286,632	5,141,632

Year Ending June 30,	Interest Rate	Bond issue March 1, 2004		
		Principal	Interest	Total
2009	3.00 % \$	0	130,195	130,195
2010	3.00	335,000	127,720	462,720
2011	3.00	350,000	117,520	467,520
2012	3.00-3.20	360,000	106,945	466,945
2013	3.20-3.30	370,000	95,525	465,525
2014	3.30-3.50	380,000	83,325	463,325
2015	3.50-3.70	395,000	70,128	465,128
2016	3.70-3.75	410,000	55,615	465,615
2017	3.75-3.90	425,000	40,103	465,103
2018	3.90-4.00	440,000	23,490	463,490
2019	4.00	260,000	7,900	267,900
Subtotal		\$ 3,725,000	858,465	4,583,465
Total		\$ 7,580,000	2,145,097	9,725,097

## Early Retirement

The District offers a voluntary early retirement plan to its full-time certified employees. Eligible employees must be at least age fifty-five, and less than sixty-five, and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. A cash payment will be made in either one or two payments, at the discretion of the employees, on July 15, September 15, November 15, or January 15 of the following year, based on the formula using unused leave days, the daily substitute teacher pay rate, and years of District service. The District will also continue paying the health insurance coverage for a single policy at the rate of the cost of a single policy in effect at the time of retirement until the retiree reaches age 65. During the year ended June 30, 2008, the District paid \$36,548 in early retirement benefits.

### **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$177,703, \$160,854, \$153,457, respectively, equal to the required contributions for each year.

### **(8) Risk Management**

Brooklyn-Guernsey-Malcom Community School District is exposed to Various risks of loss related to torts; theft; damage to and Destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$207,745 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

### **(10) Deficit Fund Balance**

At June 30, 2008 the Enterprise Fund - Preschool Fund had deficit unrestricted fund balance of \$3,603.

REQUIRED SUPPLEMENTARY INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,893,427	196,696	4,090,123	3,663,050	3,663,050	427,073
State sources	3,036,124	3,382	3,039,506	3,057,211	3,057,211	(17,705)
Federal sources	152,640	102,047	254,687	283,410	283,410	(28,723)
Total revenues	7,082,191	302,125	7,384,316	7,003,671	7,003,671	380,645
Expenditures:						
Instruction	3,328,502	14,746	3,343,248	4,425,798	4,425,798	1,082,550
Support services	1,492,210	2,554	1,494,764	1,967,000	1,967,000	472,236
Non-instructional programs	0	278,750	278,750	500,000	500,000	221,250
Other expenditures	1,145,127	0	1,145,127	1,342,801	1,342,801	197,674
Total expenditures	5,965,839	296,050	6,261,889	8,235,599	8,235,599	1,973,710
Excess(deficiency) of revenues over(under) expenditures	1,116,352	6,075	1,122,427	(1,231,928)	(1,231,928)	2,354,355
Other financing sources, net	15,163	0	15,163	271,629	271,629	(256,466)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	1,131,515	6,075	1,137,590	(960,299)	(960,299)	2,097,889
Balance beginning of year	6,349,483	133,424	6,482,907	5,573,898	5,573,898	909,009
Balance end of year	\$ 7,480,998	139,499	7,620,497	4,613,599	4,613,599	3,006,898

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

## OTHER SUPPLEMENTARY INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2008

	Special Revenue Funds					Total
	Physical				Other	
	Manage-	Student	Plant and		Capital	Nonmajor
	ment	Activity	Equipment	Total	Projects	Governmental
	Levy		Levy			Funds
Assets						
Cash and pooled investments	\$ 212,925	48,321	684,989	946,235	429,347	1,375,582
Receivables:						
Property tax:						
Current year delinquent	1,812	0	739	2,551	0	2,551
Succeeding year	130,000	0	99,992	229,992	0	229,992
Income surtax	0	0	191,965	191,965	0	191,965
Due from other governments	0	0	0	0	72,630	72,630
Total Assets	\$ 344,737	48,321	977,685	1,370,743	501,977	1,872,720
Liabilities and Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 130,000	0	99,992	229,992	0	229,992
Income surtax	0	0	191,965	191,965	0	191,965
Total Liabilities	130,000	0	291,957	421,957	0	421,957
Unreserved fund balances	214,737	48,321	685,728	948,786	501,977	1,450,763
Total Liabilities and Fund Balances	\$ 344,737	48,321	977,685	1,370,743	501,977	1,872,720

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Total
	Manage-	Student	Physical		Capital	Other
	ment	Activity	Plant and		Projects	Nonmajor
	Levy		Equipment	Total		Governmental
			Levy			Funds
REVENUES:						
Local sources:						
Local tax	\$ 170,695	0	280,738	451,433	467,887	919,320
Other	14,868	171,866	27,166	213,900	37,338	251,238
TOTAL REVENUES	185,563	171,866	307,904	665,333	505,225	1,170,558
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	38,444	0	0	38,444	0	38,444
Other instruction	0	175,941	0	175,941	0	175,941
Support services:						
Operation and maintenance						
of plant services	50,854	0	0	50,854	0	50,854
Other expenditures:						
Facilities acquisitions	0	0	115,608	115,608	222,897	338,505
TOTAL EXPENDITURES	89,298	175,941	115,608	380,847	222,897	603,744
Excess(Deficiency) of revenues						
over(under) expenditures	96,265	(4,075)	192,296	284,486	282,328	566,814
Other financing sources:						
Transfers in	0	0	0	0	79,741	79,741
Net change in fund balances	96,265	(4,075)	192,296	284,486	362,069	646,555
Fund balances beginning of year	118,472	52,396	493,432	664,300	139,908	804,208
Fund balances end of year	\$ 214,737	48,321	685,728	948,786	501,977	1,450,763

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Dramatics	\$ 3,191	360	707	2,844
Vocal music	281	1,715	1,235	761
JH vocal music	0	871	771	100
Band Resale	4	169	173	0
Band uniform cleaning	1,248	0	0	1,248
Athletics	1,943	50,626	52,569	0
Athletics resale	2,036	1,303	2,540	799
Volleyball	1,141	1,125	1,754	512
Band instrument rent	245	170	0	415
Pool activity	6,066	7,126	4,867	8,325
Boys basketball	12	1,410	975	447
Football	2,750	11,767	12,059	2,458
Wrestling	100	13,079	7,120	6,059
Girls basketball	115	1,312	1,154	273
Girls softball	369	850	868	351
Girls track	785	2,017	2,068	734
Boys track	1,140	185	525	800
Student council	6,048	17,808	18,354	5,502
JH student council	1,995	5,017	6,349	663
Elementary student council	2,685	10,110	5,397	7,398
Silver spirit poms	841	3,393	3,965	269
Elementary student council camp	266	3,913	3,840	339
Elementary student welfare	516	3,467	3,096	887
Echo	3,010	11,265	14,275	0
FHA	239	0	0	239
Pep club	84	0	0	84
Boys letter club	38	0	0	38
Girls letter club	36	0	0	36
HS cheerleaders	194	3,250	3,405	39
JH cheerleaders	10	0	0	10
French club	80	0	0	80
Jump rope for heart	659	518	1,177	0
FCA	1,745	0	240	1,505
Elementary resale	559	0	0	559
Special athletics	5,424	12,422	17,616	230
AFS	170	0	0	170
Class of 2008	4,240	30	4,270	0
Class of 2009	1,910	4,855	4,517	2,248
Class of 2010	221	1,127	55	1,293
Class of 2011	0	606	0	606
Total	\$ 52,396	171,866	175,941	48,321

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FIVE YEARS

		Modified Accrual Basis				
		Years Ended June 30,				
		2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$	3,066,344	2,931,745	2,742,108	2,776,594	2,682,910
Tuition		320,477	289,126	296,371	287,051	277,792
Other		506,606	424,472	376,436	207,620	207,714
State sources		3,036,124	2,829,923	2,773,812	2,704,103	2,464,710
Federal sources		152,640	166,225	182,283	191,741	571,600
Total	\$	7,082,191	6,641,491	6,371,010	6,167,109	6,204,726
Expenditures:						
Instruction:						
Regular instruction	\$	2,156,979	2,042,454	1,964,190	2,048,735	2,091,818
Special instruction		560,735	660,103	713,857	620,979	549,516
Other instruction		610,788	593,690	606,715	287,395	438,253
Support services:						
Student services		93,514	89,542	89,609	43,073	42,443
Instructional staff services		146,706	122,087	145,801	115,767	108,106
Administration services		493,757	494,613	546,602	509,434	511,743
Operation and maintenance of plant services		559,981	668,427	567,990	420,102	619,082
Transportation services		198,252	188,412	319,541	163,817	302,023
Other expenditures:						
Facilities acquisitions		338,505	131,752	406,230	621,754	1,216,670
Long Term Debt:						
Principal		260,000	490,227	488,589	641,902	966,725
Interest		338,877	359,162	372,197	409,159	359,404
AEA flow-through		207,745	198,257	190,359	186,460	183,434
Total	\$	5,965,839	6,038,726	6,411,680	6,068,577	7,389,217

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Brooklyn-Guernsey-Malcom Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 23, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Brooklyn-Guernsey-Malcom Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Brooklyn-Guernsey-Malcom Community School District's financial statements that is more than inconsequential will not be prevented or detected by Brooklyn-Guernsey-Malcom Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the Basic Financial Statements to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Brooklyn-Guernsey-Malcom Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brooklyn-Guernsey-Malcom Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Brooklyn-Guernsey-Malcom Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Brooklyn-Guernsey-Malcom Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Brooklyn-Guernsey-Malcom Community School District and other parties to whom Brooklyn-Guernsey-Malcom Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Brooklyn-Guernsey-Malcom Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2009

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-08 Exclusive Vendor Contract - We noted during the audit that within the Debt Service Fund there was revenue received from an exclusive vendor contract.

Recommendation - According to guidance provided by the Iowa Department of Education, the Auditor of State and the Attorney Generals Opinion dated February 15, 2000, the exclusive vendor contract is allowable, but the revenue from the exclusive vendor contract must be recorded only in the District's General Fund. Under Dillon's Rule, there is no statutory requirement or authority to record the revenue in another fund other than the General Fund.

Once exclusive vendor contract revenues are recorded in the General Fund, they can be subsequently spent for purposes including athletics, other extracurricular activities to the extent the expenditure would be allowable and appropriate from the General Fund.

Response - Any future payments for the exclusive vendor contract will be placed into the General Fund.

Conclusion - Response accepted.

- I-C-08 Student Activity Fund - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. More specific examples of these instances of questioned items and recommendations are as follows:

The District receives money for use of facilities when hosting district and regional events. Currently the District's practice is to receipt rents for hosting district and regional events into the Activity Fund. Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

We noted that the District reimbursed the parents of a student for transportation costs from the Student Activity Fund. The General Fund subsequently reimbursed the Activity Fund for this expenditure. This would appear that in certain instances that the District is using the Student Activity Fund as a clearing account for the General Fund. As mentioned above, the Student Activity Fund shall not be used as a clearing account for any other fund. The District should review guidelines for Activity Fund expenditures and discontinue the practice of using the Activity Fund as a clearing account for the General Fund.

Response – Rent received from district and regional events will be placed into the General Fund.

In the future, revenues and expenses for transportation costs will be run through the General Fund. Procedures were reviewed with staff on how to handle reimbursement situations for transportation when the Board Secretary is unavailable and the checks need to be written.

Conclusion - Response accepted.

- I-D-08 Receipting Procedures - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. These collections are turned into the office for receipting, depositing and posting only after the event or fundraising drive is completed. When the money is turned into the office there does not appear to be supporting documentation for the money collected that later could be used for reconciliation uses. We note that once collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. The copies of the receipts issued at the buildings are provided to the central office for posting and reconciling the bank statement. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit.

Recommendation - The District actually maintains multiple layers of receipting from sponsors, to the building office and to the central office. When sponsors or fundraising chairpersons submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts.

Response - Documentation is now being provided by the sponsor when they turn in funds for a fundraiser. The sponsor fills out a sheet with the name and amount collected from each individual. It is also encouraged that they turn in these sheets and funds periodically and not just at the end of the project.

Conclusion - Response accepted.

I-E-08 Purchase Orders - We noted during our audit that the District currently uses purchases orders in the purchasing process, however the Student Activity Fund had instances of purchase orders that were completed after the product had been ordered.

Recommendation -The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - Procedures have been reviewed and changed so that vendors know that purchase orders are required for all purchases. All activity fund purchase orders are run through the athletic director before the purchase is made. Purchase orders are now also being signed by an administrator.

Conclusion - Response accepted.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted.
- II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-08 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Arlene Ford, Board Member Son owns Loren Ford Trucking	Purchased services	\$1,471
Travis Solem, Board Member	Game security	\$330
Dean Knight, Teacher	Painting services	\$5,147

In accordance with Attorney's General Opinion dated November 9, 1976, the above transaction with the Board Member's son does not appear to present a conflict of interest.

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with Mr. Solem do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transaction with the Mr. Knight does not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.



II-J-08 Financial Condition - During our audit, we noted a deficit fund balance in the Enterprise - Preschool Fund of \$3,603.

Recommendation - The District should review purchase approval procedures for the Enterprise - Preschool Fund and may wish to require additional approval before ordering goods or services from this account. The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We are getting more funding through the empowerment grants for this program. We continually look at this program and increase the tuition as needed. We are also looking at the program to make sure that coding of expenses is correct.

Conclusion - Response accepted.

II-K-08 Local Option Sales and Service Tax Expenditures - According to the District's revenue purpose statement, local option sales and service tax money can be spent for PPEL type expenditures. Chapter 298.3 of the Code of Iowa states that PPEL monies may be used for a purchase of a single unit of equipment exceeding \$500 per unit. Therefore, local option sales and services tax expenditures for a single unit of equipment also need to be over the \$500 restriction.

We noted during our audit that the District purchased two protective scoreboard screens from the Capital Projects Fund for a total of \$802.15. This expenditure, which is less than \$500 per single unit, is inappropriate from the Capital Projects Fund.

Recommendation - The District should review the Code of Iowa and revenue purpose statements to avoid noncompliance in the future. The District should make a corrective transfer from the General Fund to the Capital Projects Fund for \$802.15.

Response - We have allowable equipment which was paid from the General Fund that would have qualified as Capital Projects Fund expenditures. Therefore, we do not feel that a corrective transfer is necessary.

Conclusion - Response accepted.

II-L-08 Official Contracts - We noted during our audit that the Board President was not signing athletic officials contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - The Board President will sign all contracts in the future.

Conclusion - Response accepted.